

Rodeo Drive,
known throughout the world
for its famous shopping
district, gets its name from
the fact that the center
divide was a horse path.





Revenues

California sales and use tax revenue totaled \$45.1 billion in 2006-07, an increase of 1.8 percent from the \$44.3 billion total in 2005-06. Sales and use tax revenue included:

- \$35.5 billion from the 6.25 percent state sales tax, with:
 - \$28.4 billion allocated to the state's General Fund; tax rate of 5.00 percent.
 - \$2.85 billion allocated to the state's Local Revenue Fund; tax rate of 0.50 percent.
 - \$2.85 billion allocated to the Local Public Safety Fund; tax rate of 0.50 percent.
 - \$1.41 billion allocated to the state's Fiscal Recovery Fund; tax rate of 0.25 percent.
- \$5.68 billion from the 1.00 percent Bradley-Burns Uniform Local Sales and Use Tax, allocated among all of the state's 58 counties and 478 cities.
- \$3.92 billion in special district transactions (sales) and use tax; rates vary by district.

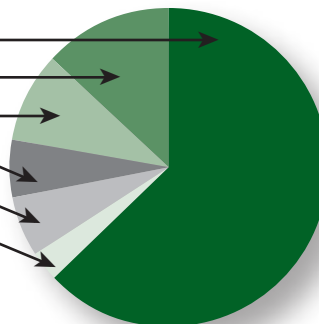
Sales and use tax allocations to the General Fund were 1.6 percent higher than in 2005-06.

2006-07 Sales and Use Tax Revenues

Billions of dollars

General Fund
Bradley-Burns
Special districts
Local revenue
Local public safety
Fiscal recovery

\$28.40
5.68
3.92
2.85
2.85
1.41



Programs

Retailers engaged in business in California pay the state's sales tax, which applies to all retail sales of goods and merchandise except those sales specifically exempted by law. The use tax generally applies to the storage, use, or other consumption in California of goods purchased from retailers in transactions not subject to the sales tax. Use tax may also apply to purchases shipped to a California consumer from another state, including purchases made by mail order, telephone, or Internet.

The sales and use tax rate in a specific California location has three parts: the state tax rate, the local tax rate, and any district tax rate that may be in effect. The statewide combined sales and local tax rate was 7.25 percent in 2006-07 (6.25 percent state tax rate and 1.0 percent local tax rate). State sales and use taxes provide revenue to the state's General Fund, to cities and counties through specific state fund allocations, and to other local jurisdictions.

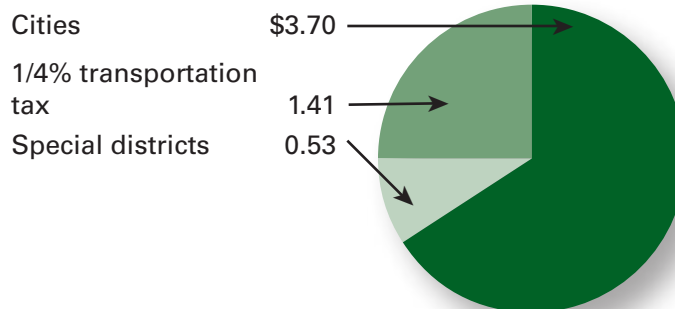
Local Sales and Use Tax

In 2006-07, the BOE collected and allocated the 1.0 percent Bradley-Burns Uniform Local Sales and Use Tax for all California cities and counties. For each sale, the 0.25 percent local tax was allocated to the county where the sale occurred, for local transportation projects. The remaining 0.75 percent local tax was allocated to the county or an incorporated city, generally depending on the location of the sales negotiations.

City and county local tax distributions are detailed in Table 21A of the Appendix, beginning on [page A-26](#).

2006-07 Local Sales and Use Tax Distributions

Billions of dollars



Redevelopment Agencies. Between 1981 and 1993, cities could finance redevelopment projects with revenue derived from the local sales and use tax and distributed under agreement to city redevelopment agencies. While this authority was repealed effective January 1, 1994, existing city ordinances were permitted to continue. As of June 30, 2007, 32 redevelopment projects in 25 California cities were receiving sales and use tax revenue.

District Transactions (Sales) and Use Tax

The BOE collects and distributes district transactions (sales) and use tax on behalf of voter-approved tax districts throughout the state. The districts fund a range of local services and infrastructure, including general government, transportation projects, open space, hospitals, and public libraries. Some California locations lie within more than one tax district. A complete list of tax districts, jurisdictions, and revenues is found in Appendix Table 21C, beginning on [page A-30](#).

At the beginning of 2006-07, there were 70 district taxes in effect, with rates ranging from 0.10 percent to 1.0 percent. On June 30, 2006, City of Woodland General Revenue Transaction and Use Tax expired. On March 31, 2007, City of Santa Cruz Transaction and Use Tax expired. Additionally, the following nineteen new districts went into effect during fiscal year 2006-07:

Effective July 1, 2006:

City of Laguna Beach Transactions and Use Tax	0.50%
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Effective October 1, 2006:

City of National City District Transactions and Use Tax	1.00
City of Woodland Transaction and Use Tax	0.50

Effective April 1, 2007:

City of Williams Transactions and Use Tax	0.50
City of Pinole Transactions and Use Tax	0.50
City of Inglewood Vital Services Transactions and Use Tax	0.50
City of Del Rey Oaks Transactions and Use Tax	1.00
City of Nevada City Street Improvements Transactions and Use Tax	0.50
City of Manteca Public Safety Transactions and Use Tax	0.50
City of Arroyo Grande Transactions and Use Tax	0.50
City of San Luis Obispo Essential Services Transactions and Use Tax	0.50
City of Grover Beach Transactions and Use Tax	0.50
City of Morro Bay Transactions and Use Tax	0.50
City of Watsonville Transactions and Use Tax	0.25
City of San Bernardino Transactions and Use Tax	0.25
City of Vista Transactions and Use Tax	0.50
Tulare County Transportation Authority	0.50
Madera County 2006 Transportations Authority	0.50
City of Santa Cruz Replacement Transaction and Use Tax	0.50

Sales made by retailers engaged in business in a jurisdiction levying a district tax are subject to a total sales tax rate that includes the statewide rate and the applicable district tax rate (see Appendix Table 23B, on [page A-34](#)). While the provisions of the Transactions and Use Tax Law are similar to state and local sales and use tax laws, significant differences do exist. These include an exemption for sales shipped to a location outside the district for use in that location and special requirements for sales of aircraft, registered vehicles, and undocumented vessels.

Operations

The BOE encourages voluntary tax law compliance and offers sales and use tax assistance through its Sacramento headquarters and 24 field offices located across the state. BOE staff in the agency's New York, Chicago, Houston, and Sacramento Out-of-State field offices assist taxpayers located outside California who are registered to do business in this state.

At June 30, 2007, the number of registered sellers was 863,993, representing 1,054,028 business locations. The agency processed approximately 3.1 million sales and use tax returns, which included prepayment forms and electronically filed returns (e-filed).

Compliance Activities

BOE compliance staff ensure that sellers properly comply with permit requirements, assist them in interpreting tax laws and regulations, provide classroom instruction and individual assistance in the correct preparation of tax returns, and collect outstanding tax amounts. In 2006-07, the Sales and Use Tax Department collected over \$885 million in delinquent sales and use taxes.

Consumer Use Tax Section

The Consumer Use Tax Section works closely with state and federal agencies in administering the use tax due on nondealer sales of vehicles, vessels, aircraft, and mobile homes, and on purchases identified on customs declarations. In 2006-07, revenues totaled \$742.7 million, including funds collected by the BOE and

- \$617.9 million collected by the Department of Motor Vehicles.
- \$6.2 million collected by the Department of Housing and Community Development.

Consumer use tax revenues this fiscal year decreased by less than one percent over 2005-06.

Audit Program

The BOE maintains an effective audit program to ensure that businesses report neither more nor less tax than required. The program audits nearly 1.0 percent of active master accounts each year, concentrating on those considered most likely to be inaccurate in their tax reporting. In 2006-07, the sales and use tax audit program disclosed net deficiencies of more than \$432.9 million. Taxpayers received more than \$111.6 million in sales and use tax refunds.

Areas of Taxpayer Noncompliance

To comply with requirements of the Taxpayers' Bill of Rights, the BOE annually:

- Identifies the areas of the Sales and Use Tax law where taxpayer noncompliance is highest.
- Classifies the types of businesses making errors.

The *Failure to Pay Use Tax on Purchases from Out-of-State Vendors* category was the most costly and frequent error, representing more than two in ten taxpayer errors. This noncompliance category accounted for more than 29 percent of all net sales and use tax audit deficiencies (less refunds), or more than \$110 million in unpaid tax. *Unsupported Sales for Resale* was the second most costly and frequently occurring category of taxpayer noncompliance. More than one in ten taxpayer errors occurred in that category. This area of noncompliance made up more than 24 percent of net sales and use tax audit deficiencies (less refunds), totaling more than \$92 million in unpaid tax.

The charts on [page 36](#) summarize the BOE's findings on the types of taxpayer noncompliance for fiscal year 2006-07 and provide other tax compliance information required by the Taxpayers' Bill of Rights.

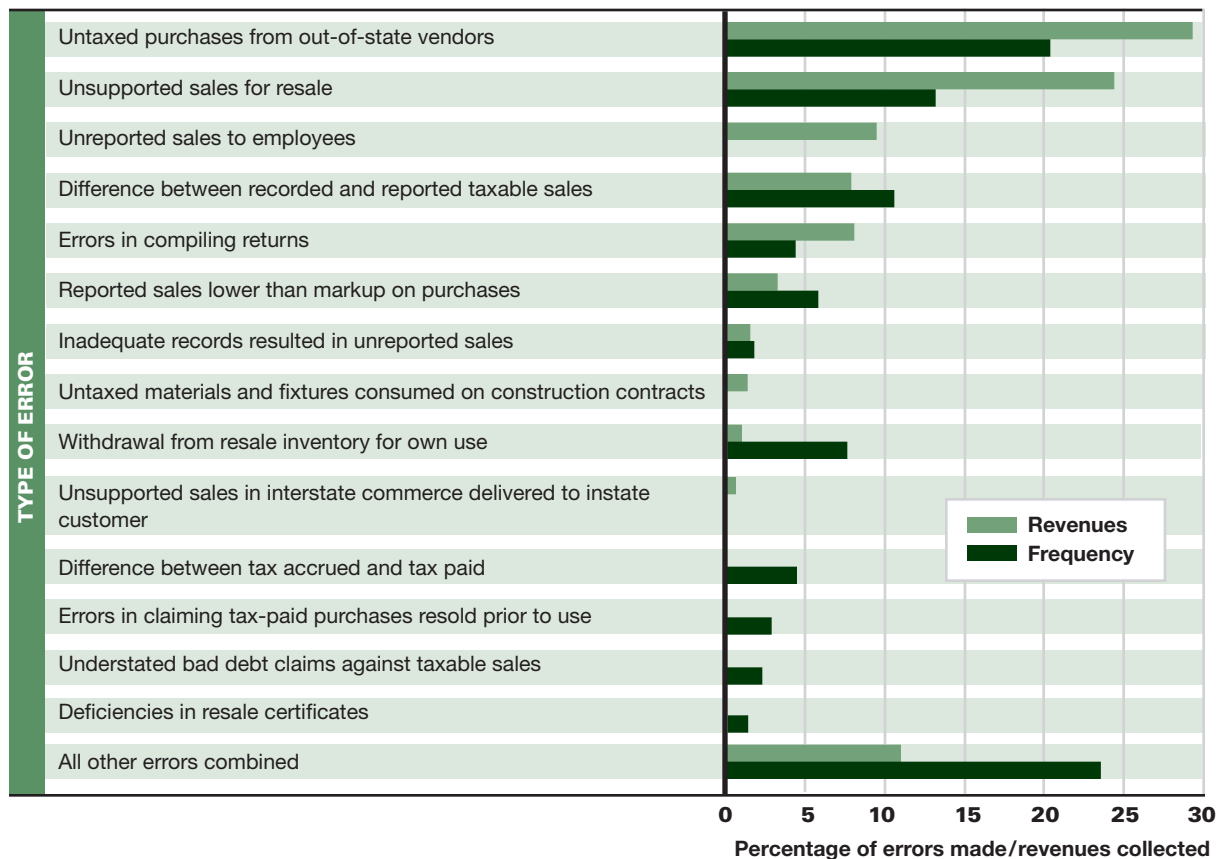
Tax Evasion

Noncompliance may also be intentional. In 2006-07, the Investigations Division issued audit billings in the amount of \$3,431,834 related to sales tax evasion.

2006-07 Analysis of Noncompliance

Types of Noncompliance

Frequency of Errors/Revenues Collected



Types of Businesses Making Error Ranked by Revenues Collected

TYPE OF BUSINESS		Percentage	Rank for 2006-07
	Manufacturers and Wholesalers of Electronic Equipment	25.40	1
	Publishers and Distributors of Light Industrial Equipment	13.26	2
	Producers and Distributors of Heavy Industrial Equipment	8.19	3
	Repair and Hand Trade Shops	7.29	4
	Public Utilities, Transportation, and Allied Services	5.94	5
	Construction Contractors and Sellers of Building Materials	5.10	6
	Office Stores and School Furniture Equipment Stores	4.67	7
	Stationery and Book Stores	2.92	8
	Full-Time Specialty Stores	2.57	9
	Manufacturers and Wholesalers of Store and Office Equipment	2.47	10
	All Other Businesses	22.19	
Total	100.00		

Court Decisions

Duty of the Legislature, not the BOE, to Address Animal Mistreatment

The Humane Society sought to stop the BOE from granting the farming equipment and machinery exemption from sales and use tax under Revenue and Taxation Code section 6356.5 for chicken coops battery cages sold to poultry producers. The Society alleged that the coops were too small and therefore violated animal cruelty laws. The Court of Appeal held that the BOE's statutory interpretation was lawful and that the BOE could not be charged with determining if property sold under the exemption violated animal cruelty laws. The Court directed the Society to the Legislature if it wanted to change the law.

Humane Society of the United States, et al. v. State Board of Equalization (2007) 152 Cal. App. 4th 349

Collections and Bankruptcy

Section 6829 Does Not Limit the Joint and Several Liability of a General Partner

The Ninth Circuit Bankruptcy Appellate Panel determined that the Sales and Use Tax Law regarding responsible person liability (Revenue and Taxation Code, section 6829) does not limit the joint and several liability of a general partner. In this Chapter 7 bankruptcy case, the BOE sought to collect unpaid sales tax from a general, secret, or dormant partnership. Debtors of the partnership sued, arguing that the BOE failed to comply with the code and failed to establish that they were responsible persons and acted willfully. The Bankruptcy Court agreed, and ordered the liability expunged. On appeal the Ninth Circuit Bankruptcy Appellate Panel reversed and remanded to the Bankruptcy Court. It ruled that Revenue and Taxation Code section 6829 does not protect debtors from any joint and several liability they may have as general partners under California Corporations Code section 16306 (a). After remand, the debtors dismissed their lawsuit against the BOE.

State Board of Equalization v. Leal (In re Leal) (9th Cir. BAP 2007) 366 B.R. 77, 2007 Bankr. LEXIS 1014.

Sales and Use Tax Legislation

Leases of Art Work

Provides an exemption from the sales and use tax on the lease of original works of public art if both the lessor and lessee are nonprofit organizations or government entities. Clarifies that a work of art may include clothing, costumes, dresses, and personal adornment.

Assembly Bill 2533, Chapter 281, Statutes of 2006; effective September 14, 2006; operative January 1, 2007

Legislation (Continued)

State Agencies— Accounts Receivable

Requires certain state agencies, including the BOE, to prepare annual reports identifying accounts receivables that are valid and collectible for 180 or more days and detail the efforts to collect these accounts.

*Assembly Bill 2591, Chapter 506, Statutes of 2006;
effective date January 1, 2007*

Statistical Data— Community of Hollywood

Requires the BOE and various other state agencies to make a separate breakdown of the community of Hollywood in the preparation and maintenance of any statistical analyses and data by city. Authorizes these state agencies to require the City of Los Angeles to provide all necessary data.

*Assembly Bill 588, Chapter 185, Statutes of 2006;
effective date January 1, 2007*

Vehicles Brought Into California for Repairs

Provides that a buyer may not be liable for the tax on the purchase and use of a vehicle bought outside of this state and brought into California within 12 months from the date of purchase. Supporting documentation must show that the vehicle was brought into California for the exclusive purpose of warranty or repair service and was used or stored in this state for 30 days or less.

*Assembly Bill 2239, Chapter 352, Statutes of 2006;
effective September 20, 2006 through June 30, 2007*

Regulations

Automobile Dealers and Sales Representatives

Regulation 1566, *Automobile Dealers and Sales Representatives*, was amended to incorporate provisions of the Car Buyer's Bill of Rights, which now requires car dealers to offer a two-day contract cancellation option for the purchase of a used vehicle under \$40,000. Amendments to the regulation explain that neither the charge for the contract cancellation option nor the portion of the sales price returned to the purchaser under the contract cancellation option is part of taxable gross receipts under the conditions set forth in Vehicle Code section 11713.21

*Title 18, California Code of Regulations, section 1566;
effective April 10, 2007*

Regulations (Continued)

Florists

Regulation 1571, *Florists*, was amended to define the term “florist” to include traditional florists who fulfill other florists’ orders and to preserve the current tax treatment of traditional florists. Retailers such as Internet sellers who do not fulfill other florists’ orders are excluded from the revised definition of florists and must report sales and use tax in the same manner as any other retailer.

*Title 18, California Code of Regulations, section 1571;
effective April 29, 2007*

Medicines and Medical Devices

Regulation 1591, *Medicines and Medical Devices*, was amended to revise the definition of “medicine” to include products fully implanted or injected in the human body, or any drug or any biologic, that is approved by the U.S. Food and Drug Administration to diagnose, cure, mitigate, treat, or prevent disease, illness, or medical condition regardless of ultimate use. The new definition includes products such as Botox®, dermal fillers, and breast implants in the definition of medicines and excludes products such as IV sets and catheters.

*Title 18, California Code of Regulations, section 1591;
effective August 26, 2006.*

Food Products

Regulation 1602, *Food Products*, was amended to provide a clear standard for taxing sales of prepackaged combination packages that contain both food and nonfood products, such as gift baskets, and to allow retailers to report sales or use tax measured by the retail selling price of the entire package when more than 10 percent of the retail value comes from nonfood products.

*Title 18, California Code of Regulations, section 1602;
effective April 7, 2007*

Vehicles, Vessels, and Aircraft

Regulation 1610, *Vehicles, Vessels, and Aircraft*, was amended to explain that, on and after January 1, 2005, sales or use tax does not apply to a vehicle transferred by the registered domestic partner of the purchaser.

*Title 18, California Code of Regulations, section 1610;
effective January 3, 2007*

Regulations (Continued)

**Interstate
and Foreign
Commerce**

Regulation 1620, *Interstate and Foreign Commerce*, provided that the sunset date for the 12-month test for purchases of vehicles, vessels, and aircraft outside of California was extended until June 30, 2007.

Title 18, California Code of Regulations, section 1620;
effective September 15, 2006

Regulation 1620, *Interstate and Foreign Commerce*, was amended to incorporate a statutory provision about evidence that rebuts the presumption that a vehicle was purchased for use in California. Documentary evidence that the vehicle was brought into this state for the exclusive purpose of warranty or repair service and was used or stored in this state for that purpose for 30 days or less may rebut the presumption.

Title 18, California Code of Regulations, section 1620;
effective April 25, 2007

**Returns,
Defects and
Replacements**

Regulation 1655, *Returns, Defects and Replacements*, was amended to incorporate provisions of the Car Buyer's Bill of Rights, which now requires car dealers to offer a two-day contract cancellation option for the purchase of a used vehicle under \$40,000. Amendments to the regulation explain that neither the charge for the contract cancellation option nor the portion of the sales price returned to the purchaser under the contract cancellation option is part of taxable gross receipts under the conditions set forth in Vehicle Code section 11713.21.

Title 18, California Code of Regulations, section 1655;
effective April 10, 2007

**Sales for
Resale**

Regulation 1668, *Sales for Resale*, was amended to specify and describe the penalty for misuse of a resale certificate and to clarify that the 10-percent penalty for negligence or the 25-percent penalty for fraud may be imposed in addition to this penalty.

Title 18, California Code of Regulations, section 1668;
effective June 5, 2007

Permits

Regulation 1699, *Permits*, was amended to explain that permits are required for locations at which merchandise is stored when the retailer negotiates sales out of state but fulfills such sales from stocks of goods located in this state.

Title 18, California Code of Regulations, section 1699;
effective December 13, 2006

Regulations (Continued)

Interest and Penalties

Regulation 1703, *Interest and Penalties*, was amended to explain that on or after January 1, 2007, any person who knowingly collects an amount of sales tax or use tax and fails to pay it to the BOE on time is liable for a penalty of 40 percent of the unpaid amount. The penalty does not apply if the unpaid tax averages less than \$1,000 per month and does not exceed five percent of the total tax collected in the same quarter in which the tax is due. The penalty also does not apply if the person fails to pay sales tax reimbursement or use tax on time because of a reasonable cause or circumstances beyond the person's control.

Title 18, California Code of Regulations, section 1703; effective May 15, 2007

Innocent Spouse or Registered Domestic Partner Relief from Liability

Regulation 1705.1, *Innocent Spouse or Registered Domestic Partner Relief from Liability*, was amended to explain that, on or after January 1, 2005, registered domestic partners have the same rights, protections, liability and benefits, and shall be subject to the same responsibilities, obligations, and duties under the law, as are granted to and imposed upon spouses.

Title 18, California Code of Regulations, section 1705.1; effective January 3, 2007

Place of Sale and Use for Purposes of Bradley-Burns Uniform Local Sales and Use Taxes

Regulation 1802, *Place of Sale and Use for Purposes of Bradley-Burns Uniform Local Sales and Use Taxes*, was amended to extend direct distribution of local sales tax revenue to the location of the warehouse in cases where the retailer has sales offices in this state, but negotiates the sale out of state, and fulfills the order from the in-state stock of goods.

Title 18, California Code of Regulations, section 1802; effective December 13, 2006

Regulation 1802, *Place of Sale and Use for Purposes of Bradley-Burns Uniform Local Sales and Use Taxes*, was amended to specify that, operative January 1, 2008, the place of sale or purchase of jet fuel for local tax purposes is the location where the jet fuel is delivered to the aircraft.

Title 18, California Code of Regulations, section 1802; effective May 17, 2007